

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE JUNE 20, 2007 PENSION BOARD MEETING**

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford  
Donald Cohen  
John Martin (Vice Chairman)  
Marilyn Mayr  
Michael Ostermeyer  
John Parish  
Dr. Sarah Peck  
Dr. Dean Roepke (Chairman)

Member Excused:

Thomas Weber

Others Present:

William Domina, Corporation Counsel  
Jack Hohrein, ERS Manager and Pension Board Secretary  
David Arena, Director of Benefits  
Vivian Aikin, ERS Administrative Specialist  
Donald Campbell, ERS Project Manager  
Michael McFarlane, Corporation Counsel Intern  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Terry Dennison, Mercer Investment Consulting  
Kristin Finney-Cooke, Mercer Investment Consulting  
Patrick Silvestri, Mercer Investment Consulting  
Kim Nicholl, Buck Consultants  
Lynn Hill, Buck Consultants  
Timothy Abramic, Buck Consultants  
Paul Wilkinson, Buck Consultants  
Janet Cranna, Buck Consultants  
John Gray, Adams Street Partners  
Jacqueline Swift, Adams Street Partners  
Ken Loeffel, Retiree  
Nancy Beck-Metz, Retiree  
Louis Metz, Retiree  
Kathy Arciszewski, Former County Supervisor and Employee

3. Chairman's Report

(a) Introduce David Arena

The Chairman introduced David Arena as the Director of Benefits for Milwaukee County.

(b) May 31 Audit Committee Meeting Cancelled

The Chairman reported that the May 31, 2007 Audit Committee meeting was cancelled.

(c) Code of Ethics Study Committee

The Chairman discussed the Code of Ethics Study Committee with the Board. The Board reviewed the unique requirement that Board members file quarterly, rather than annual, reports.

**The Board unanimously agreed to request that the Code of Ethics Study Committee entertain a motion that the Pension Board be treated the same as all other County Boards and Commissions. Motion by Ms. Bedford, seconded by Ms. Mayr.**

(d) Changes at Buck Consultants

The Chairman announced changes to the Buck Consultants team and reported that Ms. Nicholl and Mr. Strom are leaving Buck Consultants to pursue other ventures.

The Chairman reported that the actuarial calculations presented at the May 29, 2007 Pension Board meeting contained errors, and that Buck Consultants will present the corrected calculations later in the meeting. The Chairman had also asked Buck Consultants to explain the amortization of the shortfall amount over five years.

Ms. Bedford raised a question regarding the Board's relationship with Buck versus its relationship with the Buck representatives individually. The Board discussed possible inconsistencies between its relationship with Buck Consultants and its relationship with Mr. Trebatoski, who recently changed law firms. Mr. Martin noted differences between ERS's relationships with Buck and Mr. Trebatoski, specifically that the Board retained Buck as an entity, while Mr. Trebatoski was personally retained by the Board's law firm on an individual basis.

4. Minutes of May 16 and May 29, 2007 Meetings

**The Board reviewed and unanimously approved the corrected minutes of the May 16, 2007 and May 29, 2007 Pension Board meetings. Motion by Mr. Martin, seconded by Dr. Peck.**

5. Report of Retirement Systems Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the Retirements Granted report for the prior month's retirements and asked the Board to review them. He noted that back DROP payments in the amount of approximately \$1.12 million had been made.

**The Board unanimously accepted the Retirements Granted report. Motion by Mr. Martin, seconded by Ms. Bedford.**

(b) Report on Waivers

Mr. Hohrein reported that David Arena, the new Director of Benefits, and Maria Ledger, Assistant Director Long Term Support, Division of Aging, had signed all waivers.

**The Board unanimously agreed to accept the waivers presented. Motion by Mr. Martin, seconded by Mr. Parish.**

(c) ERS Staff Report for 2008

Mr. Hohrein presented his proposal for ERS staffing for the 2008 budget year, which included brief job descriptions for all proposed positions. He noted that comparative reports indicate that an appropriate staff level for ERS is 14 to 15 employees, but that actual staff levels have been 10 full-time equivalent employees. He stated that the proposal calls for 13 full-time employees and that ERS continues to have operational issues because of insufficient staff. Mr. Hohrein reported that he had met with Mr. Henken, Mr. Arena and others on May 31, 2007 to discuss staffing needs and that the response had been favorable.

Mr. Arena addressed the Board regarding his goal that ERS be properly staffed to serve both the retirees and the Board. He stated that there may be some savings through the Vitech System and that he is open to considering new positions. He noted that Mr. Campbell had informed him that ERS will need a systems person to maintain the Vitech System. He pointed out that ERS's paramount goal is to avoid errors and provide excellent service to members.

The Chairman stated that Board members agree that ERS's present staffing needs are not being adequately addressed by the County. He stated his opinion that the County must provide more staffing for ERS. He reported that the Board had followed its fiduciary duty in administering ERS when it provided Mr. Henken with a request that the Retirement Office receive adequate staffing. The Board agreed that the staffing needs of the Retirement Office should be taken care of and expedited. Ms. Mayr also agreed with the Chairman's statement as a retiree member. The Chairman complimented the staffing chart, but noted that sufficient staff members must be hired to perform the required tasks.

(d) ADR Update Report

Mr. Hohrein reported that he had sent a request for an income statement to Frankie Williams via messenger, as suggested by Mr. Ostermeyer. He informed the Board that he had received a signed income report from Frankie Williams. The Chairman thanked Mr. Ostermeyer for the suggestion of using a messenger.

(e) Cash Flow – Liquidity Report

Mr. Hohrein presented the cash flow report and discussed County contributions to ERS. He pointed out that the current year's contribution will commence in February 2008 and that last year's contribution was completed as of June 2007.

The Board discussed withdrawing assets to make benefit payments in lump sums. Ms. Finney-Cooke pointed out that there are potential advantages to withdrawing \$10 million per month over three months rather than withdrawing \$30 million as a lump sum. In response to a question from Ms. Mayr, Ms. Finney-Cooke agreed that one goal is to rebalance ERS's asset allocation to conform to the investment policy.

**The Board unanimously agreed to accept Mercer's recommendation that the cash flow requirements, as determined by the Fiscal Officer, of \$10 million per month for three months be disbursed monthly, to have Mercer make a preliminary determination regarding the source of the money and for Mercer to decide the final source of the funds. Motion by Mr. Martin, seconded by Mr. Cohen.**

6. Investments

(a) Adams Street Partners Report

Mr. Gray and Ms. Swift distributed a report and presented it to the Board on behalf of Adams Street Partners. They provided an overview of the company, noting that Adams Street Partners has been a private equity investment manager since 1972. Adams Street Partners currently manages \$14 billion in private equity assets globally. They explained that the company's capabilities extend across primary partnerships, secondary partnerships and direct investments.

They next reviewed with the Board the 2008 global offering, which consists of the U.S. Fund, the Direct Fund and the Non-U.S. Fund. They noted that Adams Street Partners is able to open the fund annually to existing clients to raise necessary funds. In response to a question from Dr. Peck, Mr. Gray explained that the market changes drastically from year to year. He stated that Adams Street Partners aims to look ahead for years regarding investments and can raise more or less money to meet current expectations of available investment opportunities. Dr. Roepke inquired whether the Adams Street representatives expect the company to continue to manage \$14 billion. Mr. Gray explained that it is difficult to predict and depends on which investments go public and consequently are removed from the available pool of investments.

The Adams Street representatives also described the company's investment process. They explained that the investment philosophy includes a disciplined balanced approach, disciplined selection of proven private equity managers, consistent manager weighting regardless of underlying fund size and bottom up manager selection. They also described target allocations for the coming investment period.

Mr. Gray and Ms. Swift reviewed the ERS portfolio and the private equity program allocations. They explained that ERS has a very diversified portfolio, which is a result of having 30 to 40 managers per year, different vintage years of managers and different classes of investments, such as buy outs and venture capital. In response to a question from Ms. Bedford, Ms. Swift described the investment returns for the various components of the ERS portfolio. In response to a question from Dr. Peck, Mr. Gray indicated that Adams Street Partners' investment return goal is 15% net of all fees. He also stated that the company usually achieves its goal over the long term. Ms. Swift reviewed the Global Program, ERS's most recent investment. She indicated that, once ERS has invested in the program, Adams Street Partners does not actively invest the funds unless there is a new subscription.

Ms. Bedford asked why so much money is available in the industry. The Adams Street representatives responded that there are a significant number of private equity investments by new investors who are attempting to achieve higher investment returns through private equity, rather than through a combination of stocks and bonds.

Mr. Gray and Ms. Swift next reviewed the state of the global private equity industry. They provided a market overview, along with information on investment activity, fundraising, valuations and the exit environment. Dr. Roepke requested that future reports include additional annual distribution flow information.

(b) Mercer Report

Mr. Dennison and Ms. Finney-Cooke presented Mercer Investment Consulting's report to the Board. Mr. Dennison reviewed information regarding the market and economy. He explained that market performance was affected by inflation risk and sub prime lending risk. He noted that the Federal Reserve may raise interest rates, rather than lower them as had been expected. He addressed the trend of foreign investors only purchasing 11% of U.S. bonds and noted that if the trend continues, interest rates will rise and will drastically increase the interest rates on adjustable rate mortgages.

Ms. Finney-Cooke presented the flash report for May 2007. She noted that ERS had an aggregate market value of just over \$1.69 billion at the end of May. She indicated that ERS gained 1.8% in May, which was ahead of the benchmark by 0.4%.

She reviewed market performance, noting that the large cap domestic equity market gained 3.6% and small cap equity market gained 4.1%. She noted that growth matched value in the large cap arena but outperformed value in the small cap arena. She also stated that the international equity markets gained 1.9% and emerging market equities advanced 5%. The investment-grade fixed income market declined 0.8%, but high yield issues gained 0.7%.

Ms. Finney-Cooke next reviewed ERS's investment allocations. She explained that ERS was underweight in core fixed income at the end of May. She stated that ERS must be returned to the proper balance under the investment policy and the balance will be achieved through cash flow needs for making benefit distributions.

Ms. Finney-Cooke reviewed investment performance. She noted that EARNEST Partners and Artisan had been performing poorly but had

recently improved. She stated that Reinhart & Mahoney had been performing very well but was beginning to struggle. She recommended monitoring the performance of Hotchkis & Wiley because it was still failing its benchmarks. She reviewed the performance of Westfield Capital Management and noted that representatives will be attending the August Pension Board meeting. She noted that the company's performance level is at the action trigger outlined in the investment policy and recommended that the Investment Committee address next steps.

Ms. Finney-Cooke also reported on the due diligence reviews of AQR and Baring Asset Management, the international equity finalist candidates. She noted that a hiring decision is pending. Dr. Roepke commented that the Investment Committee was impressed with Baring and that Ms. Finney-Cooke had organized the due diligence trips well.

(c) Investment Committee Report

Mr. Martin presented the minutes of the June 7, 2007 Investment Committee meeting. He reported that the committee had reviewed Hotchkis & Wiley's request to invest up to 20% of the ERS portfolio in non-U.S. equities. The committee reviewed the request with Mercer and recommended rejecting the proposal because of Hotchkis & Wiley's inadequate performance, the possibility of Hotchkis & Wiley trying to improve its own performance which would require changes to the Board's investment policy and an increase in risk that would result from a larger investment in non-U.S. equities.

**The Board unanimously agreed not to accept Hotchkis & Wiley's proposal to change its investment cap from 10 to 20% in non-U.S. equities. Motion by Dr. Peck, seconded by Ms. Bedford.**

Mr. Martin presented information on the 130/30 investment arrangement. Mr. Dennison reported that Mercer is publishing two educational papers on domestic and international 130/30 products.

Mr. Martin reported that the committee had addressed replacement of ERS's international core equities manager. He reviewed the search process and the due diligence review of AQR and Baring. He noted that the finalists were very close in performance. He recommended on behalf of the committee that the Board select Baring as its international core equities manager. He explained that the committee was comfortable with its choice and with the replacement process.

(d) Recommendation for International Manager Change

The Board reviewed the Investment Committee's recommendation to select Baring as the new international core equities manager.

**The Board unanimously agreed to select Baring to replace Capital Guardian as ERS's international core equities manager, subject to negotiation of the contract and any additional requirements. Motion by Mr. Martin, seconded by Ms. Bedford.**

Mr. Martin addressed negotiation of the contract and indicated that Ms. Riley would communicate with Baring to resolve any other implementation issues. Mr. Ostermeyer thanked the Board members who participated in the due diligence reviews and noted that the information gained was extremely helpful in making the replacement decision.

7. Implementation of New Technology Software

Mr. Campbell presented the V3 Summary Status Report to the Board. He indicated that Mr. Arena has taken on support of the project. He reported that the records room folder resequencing was complete, the sorting of documents for imaging was approximately 42% complete, the review of detailed specification documents was 27.5% complete, the data mapping process was 20.8% complete and the documents/forms/letter development was 60% complete.

In response to a question from the Chairman, Mr. Campbell explained that a world module contains identifying information such as a member's name and address. Mr. Campbell reported that, with respect to the records room clean up, he would like to have IKON work on other documents because IKON is only scanning 160,000 documents, as opposed to the originally planned 1.6 million. Regarding data conversion and cleansing, he stated that data is only available in the old technology. He reported that IMSD would like to access the data in newer technology because the data is more usable. Mr. Campbell is ensuring quality control during the process and assured the Board that IMSD, not ERS, is paying for the access. Mr. Campbell recommended that ERS hire a new person in the benefit information systems specialist position for future steps with respect to the Vitech project. Mr. Campbell next reported on V3 user acceptance testing. He noted that ERS had acquired software testing tools and wants quality assurances that Vitech will test these tools first.

Mr. Campbell next presented the Vitech contract addendum. He noted that Mr. Grady prepared the addendum and Mr. Campbell will review it. Once the addendum is completed, it will be sent to Vitech.

Mr. Campbell reiterated that ERS needs a systems person by the end of 2007 or, at the latest, by early 2008. Mr. Campbell discussed the Vitech project's budget. He



reported that the total Vitech expenditures to date were \$2,616,301. Mr. Campbell presented and discussed the milestone payment schedule. He recommended increased expenditures of \$4,500 for the change in technology direction and \$8,400 for the data conversion and cleaning strategy. The Chairman asked whether Messrs. Hohrein and Arena agreed with the need for the increased expenditures. They indicated their agreement.

**The Board unanimously agreed to the requests for increased expenditures with respect to the V3 Implementation project. Motion by Mr. Cohen, seconded by Mr. Martin.**

Mr. Metz asked a question regarding the target implementation dates. Mr. Campbell replied that April 2008 is the targeted test date and July 2008 is the targeted operational date. He explained that the target dates may be extended three to four months as health and life items are added.

(a) Compass Contract

Mr. Campbell read a statement from Compass Technology Services requesting a 7% hourly rate increase retroactive to May 2007. He stated that the contract with Compass was entered into on August 28, 2006 for a project service order at a rate of \$86 an hour. He stated that circumstances have changed since the inception of the contract and the scope of the project has increased. Specifically, he noted that the project end date was much later than originally anticipated, creating a much longer project. Mr. Campbell also noted that the duties had expanded and there were project cost increases, project sponsorship and oversight changes and increased reporting. He also noted that there were good faith changes to the scope of the services rendered under the contract without a change in the fee. Mr. Campbell pointed out that even with a 7% increase, the rate is very favorable when compared to other rates charged by comparable firms for comparable services.

He also pointed out that the implementation of life and health modules represents only a 15% greater time requirement and those fees are being charged back to Milwaukee County. He noted that ERS was saving money through the Vitech credits he obtained. The 7% increased rate would result in less than \$20,000 in additional cost.

Mr. Martin asked Mr. Campbell if there was a separate contract with Milwaukee County. Mr. Campbell responded that there is no separate contract with Milwaukee County and that the chargeback to Milwaukee County would be at the same rate. Messrs. Hohrein and Arena agreed that

Mr. Campbell's analysis was appropriate. Mr. Campbell said this practice is the same for other resources.

The Chairman stated that the fee increase request was prepared in a very nice manner. He noted that he has only experienced positives from Mr. Campbell. In response to the Chairman's question, Mr. Campbell stated that he is the only employee of Compass Technology Services.

**The Board unanimously agreed to accept the 7% rate increase for Compass Technology Services retroactive to May 2007. Motion by Ms. Mayr, seconded by Ms. Bedford.**

The Board agreed to lay over approving the formal contract amendment to the Vitech Systems Group, Inc. contract. The Board noted that the letter of intent, in which the Board approved payment of an additional \$250,000 to Vitech, should be replaced with a formal contract amendment. A copy of the proposed contract amendment was distributed to the Board. The Chairman asked Mr. Grady and Ms. Riley to review the contract amendment prior to the Board signing the amendment.

8. Vitech Implementation Oversight Committee Report

Mr. Martin reported to the Board regarding the May 14, 2007 meeting of the Vitech Implementation Oversight Committee. He explained that the committee had reviewed Mr. Campbell's report and discussed areas of concern, including the cost of IKON imaging and the Vitech contract amendment. He reported that the committee is meeting monthly and the Board will also receive minutes of the June meeting.

9. Report on Task Force on Pension Funding

Mr. Cohen reported on the June 1, 2007 meeting of the Task Force on Pension Funding and Alternatives. He reviewed with the Board four reports that had been presented to the Task Force. Ms. Mayr commented that one report that was distributed appeared to contain errors. In response to a question from Mr. Martin, Mr. Cohen explained the Task Force's mission. Mr. Cohen also explained that the Task Force is still in the discovery process and is a long way from a proposal. The Chairman suggested that the Task Force contact the International Foundation of Employee Benefit Plans about funding alternatives and inquire about best practices.

Ms. Mayr responded that she contacted the International Foundation about the topic and gave the package she received to Mr. Heer. The next Task Force meeting is scheduled for July 13, 2007 at 10 a.m. at the Courthouse. Mr. Mayo

requested that a presentation be made to the Task Force members on fiduciary responsibility and best practices.

10. Appeals and Requests

Closed Session

The Chairman stated that the Board may adjourn into closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation and for considering the financial, medical, social or personal histories or disciplinary data of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data. The Board agreed by roll call vote, with Ms. Mayr dissenting, to enter closed session to consider items 11-14.

Kathy Arciszewski

The Board reviewed a request from Kathy Arciszewski to receive a pension for her prior employment with the County. Ms. Arciszewski was a County Supervisor who was terminated 14 days prior to becoming vested for a pension. The Board noted that she has applied for several County positions and determined she would likely become eligible for a pension if hired.

The Board further discussed Ms. Arciszewski's request in closed session.

**Upon returning to open session after discussion of item 13, the Board unanimously agreed to deny Ms. Arciszewski's appeal to receive a pension without the required service credit. Motion by Mr. Martin, seconded by Ms. Bedford.**

11. Legal Update

The Board discussed pending litigation in closed session.

12. Report on Compliance Review

The Board discussed progress on a compliance review report in closed session.

13. Disability Applications or Reexaminations

The Board discussed Disability Applications or Reexaminations in closed session and took the following action upon returning to open session.

(a) Robert Fetterly

**The Board unanimously agreed to approve Mr. Fetterly's application for an ordinary disability pension based on the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Mr. Martin.**

(b) John Young

**The Board unanimously agreed to deny Mr. Young's application for an accidental disability pension based on the recommendation of the Medical Board that there was no specific accident that caused his disability. The Board also unanimously agreed to deny Mr. Young's application for an ordinary disability pension because Mr. Young has insufficient service to qualify for an ordinary disability pension. Motion by Mr. Martin, seconded by Mr. Cohen.**

(c) Shirley Dorris

**The Board unanimously agreed to deny Ms. Dorris' application for an ordinary disability pension based on the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Ms. Mayr.**

14. Buck Consultants Report

(a) New Buck Team

The new Buck team was introduced to the Board. Ms. Nicholl and Mr. Strom are leaving Buck Consultants to pursue other ventures. The new team offered to present an "Actuarial Sciences 101" course to the Board. Mr. Domina reported that the head of the Buck office assured him that Buck will do whatever is required to fill the needs of the Board going forward.

(b) 2007 Valuation Report and 2008 Budget Contribution Request

Ms. Nicholl presented the 2007 revised valuation report, which was updated to reflect a correction. She explained that the original report inadvertently used 30 years, instead of 5 years, for amortizing the contribution variance. She noted that the summary of results showed the actual contribution to be \$52,395,000, which was significantly lower than Buck's originally projected contribution of \$59 million. The Chairman asked if the shortfall to be amortized over five years should be based on the projected contribution amount of \$59 million from last year or the actual contribution amount of \$52 million. Ms. Nicholl said the historical practice has always been to amortize the actual amount instead of the budgeted amount. She indicated that the best practice is to contribute the actual amount.

Mr. Martin inquired if there would be a credit in a hypothetical situation where the County contributed \$59 million when the actual amount necessary was \$52 million. Ms. Nicholl replied by saying there would be a credit and this situation is occurring with OBRA.

**The Board unanimously agreed to accept the corrections and authorized the Chairman to sign and send the corrected letter regarding the requested contribution. Motion by Mr. Cohen, seconded by Mr. Parish.**

15. Continuing Education

Mr. Hohrein reported on a conference he attended.

The Chairman noted that the actuarial education session proposed by Buck will be added as a future educational topic.

16. Adjournment

The meeting adjourned at 1:50 p.m.

Submitted by Steven D. Huff,  
Assistant Secretary to the Pension Board